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Testimony of

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before the

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U.S. House of Representatives

on

China's Exchange Rate Policy

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Thank you, Chairman Levin, Ranking Member Camp and Members of the Committee. I welcome the opportunity to be here today to testify on behalf of both my own union, the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union—the United Steelworkers (USW) and the entire AFL-CIO whose affiliate unions represent some 11.5 million workers across the United States. We believe that China's currency manipulation has not only directly harmed millions of manufacturing workers, but has contributed significantly to the job loss and wage stagnation felt by teachers, fire-fighters, transit workers and a myriad of others as the domestic economy staggers. In short, it is a practice that has a negative impact on all of us.

I want to commend Chairman Levin for his leadership on this issue and to agree completely with his statement that "there is no real question that China's deliberately undervalued exchange rate is unfair, contributes to global trade imbalances, and costs the United States jobs and economic growth, particularly in the manufacturing sector." The question now is do we have the will to act to level the playing field and provide the support and assistance that millions of American workers and their communities expect and deserve? The AFL-CIO believes that the enactment of the Currency Reform for Fair Trade Act (H.R. 2378) would be a vital step to begin the process of economic recovery and I strongly urge passage.

The American economy remains mired in a deep recession. Unemployment, underemployment, wage stagnation, foreclosures all paint a grim picture of an economy still struggling to recover.

This recession is just another big wave in a decade of economic tsunamis that have hit the workers and employers in American manufacturing. Over the last ten years, we lost over five and half million jobs, two million over the past two years, and saw 57,000 manufacturing facilities close. The loss of these skilled workers, engineers, designers, scientists and more has eroded the nation's working middle class and dangerously undermined our technical, industrial and innovative capacity. This nation will not be able to double net exports or reduce our trade deficits substantially unless we produce more of what we consume and achieve more consistent success in export markets. This will take deep reform of our trade policies and practices, starting with concrete measures to address currency manipulation.

Trade Impact

All through this decade we saw our trade deficits soar especially with China. That deficit has almost tripled since China's WTO accession -- from $84 billion in 2001 to $227 billion in 2009. U.S. foreign direct investment in China has jumped, especially in manufacturing. In 2009, we ran a trade deficit with China in advanced technology products (ATP) of $73 billion – tripled in NOMINAL TERMS from less than $12 billion in 2002. With the rest of the world, we ran a surplus in advanced technology products of $17 billion in 2009. The Economic Policy Institute has estimated that the growth in the U.S. trade deficit with China since 2001 has displaced about 2.4 million American jobs.

This is clearly not the trade profile that the U.S. government predicted as the likely outcome of China's WTO accession. But it *is* the result of concerted strategic interventions by the Chinese government over many years – and inaction by our own. These trade deficits are unsustainable and require immediate action. What we desire is a mutually respectful, functional and sustainable bilateral economic relationship

Currency Manipulation as an Export Strategy

Through systematic and one-sided intervention in currency markets, the Chinese government has kept the renminbi approximately 40 percent undervalued with respect to the U.S. dollar for many years in support of its export strategy.

Undervaluation serves China's strategy of building powerful export markets rather than their own domestic consumer markets. It takes market share and jobs from the United States by penalizing our exports. It subsidizes imports into this country while subsidizing investments into their economy.

The Chinese government's practices amount to as much as a 40 percent subsidy for the products they send here and a tax on products we try to send there while siphoning investment dollars vital to keeping the U.S. at the forefront of research and development.

This is not free trade nor is it the way the major economies of the world have agreed to behave. And the Chinese government's actions influence the monetary policies of other countries compounding our trade problems. The U.S. Treasury bi-annual currency reports acknowledge the fact that other nations mirror the Chinese government's behavior.

In real terms currency manipulation has cost American workers and communities good jobs while undermining this nations technical and industrial capacity to make the things we consume and export. It uses our dollars to stimulate another nation's economy while racking up unsustainable trade deficits at home.

Ending Manipulation Generates Jobs

The drag on GDP growth that comes from the bilateral trade deficit has significantly broader economic implications. Preliminary estimates from the

Economic Policy Institute point to as much as a $500 billion reduction in our nation's federal budget deficit over the next six years from ending China's currency manipulation.

While addressing China's currency manipulation is one of the highest priorities for workers in the manufacturing sector, it is time to recognize the broader impact of China's practices. Lost manufacturing jobs lead to lost tax revenue and higher budget deficits that limit our ability to invest in our future. This puts substantial pressure on federal, state and local budgets resulting in layoffs of teachers, police and other emergency responders. It doesn't have to be this way.

Taking action to end currency manipulation will generate jobs and investments in the U.S. economy. Nobel laureate, Paul Krugman, estimates an end to the manipulation would produce a net export gain to the United States, Europe and Japan amounting to about 1.5 percent of GDP, increasing the U.S. economy by about $220 billion. The Peterson Institute and the Economic Policy Institute agree that a 25 percent to 40 percent revaluation in the renminbi would reduce the U.S. trade deficit between $100 billion and $150 billion per year, adding between 750,000 and 1 million jobs to American payrolls.

Time to Act

The predatory trade practice of currency manipulation by the Chinese government has consistently violated the rules they promised to live by upon joining the WTO. It has led to massive outsourcing and unrelenting trade deficits that have cost millions of American workers their jobs. American workers, communities and industry have every right to expect their government to take action. It is long, long overdue.

There will be naysayers that tell you taking any action on currency will cause a trade war or that the Chinese are revaluing their currency and we should wait and see. We have been waiting and seeing and talking and dithering for far too long. We are in a trade war and we are losing. Three trillion dollars in trade deficits over the past ten years tell us so. The Chinese government is saying the same things today that it said in 2005-2008 when they revalued their currency "at their own pace." They did it so slowly that it did not even keep pace with the growth of their economy and productivity. The result of this was a *renminbi* undervalued by the same amount today as it was in 2005.

The time for talk is over. We can create jobs by enforcing our trade laws consistently and proactively. On behalf of the working families of this nation I urge you to take action now. Pass HR 2378, the Currency Reform for Fair Trade Act of 2010.